



April 25, 2019

Performance Audit

Franchise Fee Revenue Audit

Albuquerque Bernalillo County Water Utility Authority

Report No. 19-103



Albuquerque Bernalillo County
Water Utility Authority

**CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT**

PERFORMANCE AUDIT REPORT
FRANCHISE FEE REVENUE AUDIT
ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
REPORT NO. 19-103

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City of Albuquerque - Office of Internal Audit

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The purpose of this audit was to determine if the Albuquerque Bernalillo County Water Utility Authority (the Authority) was in compliance with the franchise fee City ordinance Section 13-4-9-8 (A), (B), and (C) ROA 1994.

Executive Summary

Opportunities exist for improvement in both the Authority and City operations pertaining to overall compliance with, and monitoring of, the requirements contained in City ordinance Section 13-4-9-8 ROA 1994.

The areas addressed throughout this report will help the Authority and the City improve compliance with, and monitoring of the franchise fee ordinance. The audit identified that:

- Certain revenues were excluded from gross revenue,
- Certain customers were not assigned to appropriate billing jurisdictions resulting in jurisdictional mismatches,
- The Authority did not prepare and submit an annual reconciliation of franchise fees, and
- The City did not request or review an annual reconciliation of franchise fees.

At OIA’s request during the audit, the Authority prepared franchise fee reconciliations for fiscal years 2016 and 2017. OIA reviewed the reconciliations identify a total of \$3.5 million in combined revenues within the City’s jurisdiction and \$1.2 million in combined revenues with no assigned jurisdiction that were excluded from the base calculation of the City’s franchise fee and remain questionable. It is not clear in the ordinance that these accounts can be excluded. The City’s understanding is that the revenues are includable and the Authority’s understanding is that the revenues are properly excludable from the franchise fee assessment. These revenues were not assessed in the City’s franchise fee rate of four percent, which is approximately \$189.5 thousand.

The scope of the audit was limited relative to the 2,414 customer accounts identified by the Authority with jurisdiction mismatches. The Authority is actively researching these accounts to determine proper jurisdiction.

The Authority agrees and disagrees with parts of finding #1. The Authority concurred with finding #2 and will implement the recommendations. (See response at **Appendix D**)
The CAO concurred with the findings and will implement the recommendations.

Recommendations

• • •

The Authority should:

- Revise policies, procedures, and internal control processes to ensure compliance with City ordinance Section 13-4-9-8 (A) and (C) ROA 1994;
- Ensure customer jurisdiction data is periodically validated and that jurisdictional mismatches are corrected timely; and
- Work with the City to resolve how excluded revenue will be accounted for and negotiate, as needed.

The City should:

- Establish and implement policies, procedures, and internal control processes to ensure monitoring of City ordinance Section 13-4-9-8 (A) and (C) ROA 1994; and
- Work with the Authority to resolve how excluded revenue will be accounted for and negotiate, as needed.



City of Albuquerque

Office of Internal Audit

April 25, 2019

Accountability in Government Oversight Committee
P.O. Box 1293
Albuquerque, New Mexico 87103

Audit: Franchise Fee Revenue Audit
Albuquerque Bernalillo County Water Utility Authority
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FINAL

INTRODUCTION

The Office of Internal Audit (OIA) completed a performance audit of the Albuquerque Bernalillo County Water Utility Authority (the Authority) franchise fees for fiscal years (FYs) 2016 and 2017. This audit was added to the FY2019 audit plan following the completion of OIA's annual risk assessment process that included an analysis of the City of Albuquerque (City) revenue sources. The Authority was selected as it is one of the larger sources of franchise fee revenue. Information pertaining to the audit objectives, scope, limitations, and methodology can be found in **Appendix A**.

Creation of the Authority

In 2003, the New Mexico Legislature adopted Senate Bill 887 Laws 2003, Chapter 437 (§72-1-10, NMSA 1978), which created the Authority and provided that all functions, appropriations, money, records, equipment, and other real and personal property pertaining to the Joint Water and Wastewater Systems (System) would be transferred from the City to the Authority.

To facilitate the System transfer, the City, Bernalillo County, and the Authority entered into a joint powers agreement governing policy matters and a memorandum of understanding (MOU) governing operational matters. Both of these documents provided a framework for the Authority to operate successfully and without interruption in services provided to the community. The current MOU is effective through June 30, 2019. The City and Authority have agreed upon an operating structure, which is governed by the current MOU and have agreed to a franchise fee structure that is governed by the Franchise Fee Ordinance.

Franchise Authorization

The City is authorized to grant, by ordinance, a franchise for the construction or operation of any public utility under Section 3-42-1 NMSA 1978. In 2006, the City granted a franchise to the Authority under City ordinance Section 13-4-9 ROA 1994 for a term of 10 years.

The ordinance also changed the way the Authority administers the franchise fee revenue by passing through the cost the Authority pays to the City for use of the right of way. Beginning July 1, 2006, the Authority received permission to bill this cost as a pass through expense to the Authority's customers. Prior to this, the cost of the franchise fee was absorbed by the Authority.

The Authority's Billing System

From 2005 until 2009, the Authority used a PeopleSoft billing system product called Customer Information System (CIS). In 2009, support for CIS was discontinued so the Authority replaced it and implemented an Oracle billing system called Customer Care & Billing (CC&B).

CC&B generates monthly billings for customers, which includes charges for water, wastewater, and solid waste. CC&B automatically applies a franchise fee charge to each bill based on the franchise fee rate established for the jurisdiction in which the customer resides (i.e., City of Albuquerque, Valley Bernalillo County), Rio Rancho or Los Ranchos). Customers within the City's jurisdiction are charged a franchise fee rate of four percent, which is applied to certain water and wastewater billing line items (i.e., base charge, commodity, facility rehabilitation, and conservation charge, minus the low use discount). No franchise fee is charged to the solid waste portion of the billing as it is not subject to the franchise fee. The fee portion of the City billings are automatically posted by CC&B into a separate account for the City on the Authority's financial accounting system. At the end of each month, the total franchise fee accumulated in the City's account is remitted to the City.

Annual Reconciliation

As noted in Finding #2 of the report, the Authority had never prepared or submitted an annual reconciliation of gross revenues to actual franchise fees paid. During the audit, the Authority prepared a reconciliation of gross revenues to actual franchise fees paid for FYs 2016 and 2017, which included:

- Gross revenues per the trial balance compared to gross water and wastewater revenues reported on the Authority's annual financial statements;
- Gross revenues by trial balance account number as applicable to each jurisdiction;
- A detailed breakdown of gross revenues by jurisdiction on the reconciliation to distinguish between revenues that are included in the franchise fee calculation and revenues that are excluded from the franchise fee calculation for each jurisdiction; and
- A recalculation of franchise fees for each jurisdiction (e.g., total included revenues times the applicable franchise rate), compared to actual franchise fee paid for each jurisdiction.

In fiscal year 2016, the Authority's gross water and wastewater revenues totaled \$210.1 million of which \$183.7 million was related to the City's jurisdiction and the Authority paid the City \$7.3 million in franchise fees. In fiscal year 2017, the Authority's gross water and wastewater revenues totaled \$215.2 million of which \$189.8 million was related to the City's jurisdiction and the Authority paid the City \$7.6 million in franchise fees. A gross revenue reconciliation of the Authority's two-year, \$425.3 million gross revenue is included as **Appendix B**.

Internal Controls

Audits performed by OIA often involve a review of an entity's internal controls. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) developed the Internal Control Framework (COSO Framework) to assist organizations in "designing, implementing, and conducting internal control and assessing its effectiveness." The COSO Framework has gained global acceptance as the standard by which to compare internal controls, and OIA uses it to evaluate the design and effectiveness of an entity's internal controls.

OIA considered applicable internal controls of the Authority in performing procedures relative to the three audit objectives found in **Appendix A**. The results of audit procedures identified opportunities for internal control improvements pertaining to revising policies, procedures, and internal control processes to ensure compliance with the City franchise fee ordinance relative to objectives one and three. In the performance of audit procedures for objective two relative to timely payment of franchise fees, one out of twenty-four payments tested was late, and was determined to not be a significant issue and a formal report finding was not necessary.

Since OIA identified findings relative to the Authority that were not identified by City management through the City's existing internal controls, OIA also considered the City's internal controls for monitoring compliance with the City ordinance. The results of audit procedures identified opportunities for internal control improvements pertaining to the lack of policies, procedures, and processes to ensure proper monitoring of the Authority's compliance with the City ordinance relative to objectives one and three.

As a result of applying our audit procedures, OIA identified opportunities for improvement in both the Authority and City operations and has included recommendations to both the Authority and the City in this report.

FINDINGS

The following findings address areas that OIA believes could be improved by the implementation of the related recommendations.

1. REVISE POLICIES, PROCEDURES, AND INTERNAL CONTROL PROCESSES TO ENSURE FRANCISE FEES PAID ARE ACCURATE AND IN COMPLIANCE WITH CITY ORDINANCE SECTION 13-4-9-8 (A) ROA 1994.

Neither the City nor the Authority have overarching policies, procedures, or internal control processes that would ensure franchise fee are paid in accordance with City ordinance Section 13-4-9-8 (A) ROA 1994. As a result, the following issues were noted:

- A. Exclusion of Certain Revenues from Gross Revenue, and
- B. Existence of Jurisdictional Mismatches.

COSO Principle 12 encourages organizations to deploy control activities through policies that establish what is expected and procedures that put policies into action. Important characteristics of COSO Principle 12 include:

- Establish responsibility and accountability for executing policies and procedures,
- Perform reconciliations in a timely manner,
- Take corrective action,
- Perform procedures using competent personnel, and
- Reassess policies and procedures.

Without formal policies and procedures that are aligned with franchise fee operational processes, compliance issues existed and remained unnoticed. For example, not properly including all water and wastewater gross revenues for customers within the City jurisdiction impacts the calculation of franchise fee assessed, collected, and paid by the Authority and received by the City. The Authority identified 2,414 customer accounts with jurisdiction mismatches for which OIA cannot conclude the amount of potential over or under payments of franchise fee.

In reviewing the Authority's reconciliation, we noted certain revenue accounts were excluded from the franchise fee calculation that were not clearly identified as revenues that are excludable, under the definition of gross revenues defined in the ordinance. The City's understanding is that the revenues are includable and the Authority's understanding is that the revenues are properly excludable. If all excluded revenues were determined to be includable and applicable to the City, total gross revenues would have been \$4.74 million higher over the two-year period; therefore, the

potential maximum franchise fee calculation that could have been assessed, collected, and paid to the City would have been approximately \$189.5 thousand.

The following subsections provide further details about the issues identified above.

A. Exclusion of Certain Revenues from Gross Revenue

According to the definition of gross revenue contained in City ordinance Section 13-4-9-3 ROA 1994, the Authority is allowed to exclude certain amounts received by the Authority involving:

- Customers outside of the limits of the City;
- A tax, fee or assessment of general applicability collected by the Authority for pass-through to another governmental agency;
- Reimbursements from third parties for expenses;
- Bad debts written off;
- Revenue received by the Authority upon which the City already collects a franchise fee from another utility;
- Utility expansion charges; or
- Refunds or credits.

In reviewing the Authority’s newly prepared reconciliations for FYs 2016 and 2017, OIA identify a total of \$3.51 million in combined revenues within the *City’s* jurisdiction and \$1.23 million in combined revenues with no jurisdiction assigned that were excluded from the base calculation of the City’s franchise fee that were not clearly identified as excludable in the definition of gross revenue noted above. These revenues were not assessed the City franchise rate of four percent, which is approximately \$189.5 thousand. The reconciliation summary at **Appendix B** and the table below illustrate the questionable exclusions and jurisdictional amounts.

**Summary of Excluded Revenues not Assessed a Franchise Fee
 FYs 2016 & 2017**

Questionable Exclusions*	FY 2016	FY 2017	Total
<i>City’s Jurisdiction: Water Revenue</i>			
Penalties – City	\$536,507	\$922,025	\$1,458,532
Cross Connection Fee	193,050	186,000	379,050
Wasted Water Fines	66,290	91,980	158,270
Fees Taxable	159,022	155,041	314,063
Fees Nontaxable	602,303	598,166	1,200,469
<i>Total Excluded Water Revenue</i>	<i>\$1,557,172</i>	<i>\$1,953,212</i>	<i>\$3,510,384</i>
<i>Unknown Jurisdiction: Wastewater Revenue</i>			
Compost Sales	\$19,325	\$104,434	\$123,759

Compost Sales Nontaxable	79,144	51,227	130,371
City Unmeasured Sewer (partial)	295,764	187,505	483,269
Other	246,353	243,909	490,262
Total Excluded Wastewater Revenue	\$640,586	\$587,075	\$1,227,661
Total Excluded Water & Wastewater Revenue	\$2,197,758	\$2,540,287	\$4,738,045
<i>Franchise Fee*</i>	<i>4%</i>	<i>4%</i>	<i>4%</i>
Total Excluded Franchise Fee*	\$87,910	\$101,611	\$189,521

* Assuming that all exclusions are determined to be includable and applicable to the City
 Source: The Authority's FY 2016 & 2017 Reconciliation

The excluded revenue accounts noted in the table above are not clearly identified as excludable under the current definition of gross revenues. Currently, the Authority is not assessing, collecting, or remitting a franchise fee on these billing line items (see **Appendix C** for descriptions of billing line items).

It is the City Administration's position that these excluded billing line items and associated revenue accounts within the City's jurisdiction should be included with gross revenues and subject to the franchise fee assessment. The following sections of City ordinance Section 13-4-9 ROA 1994 are relevant to the City's position (emphasis added):

- Section 13-4-9-9 (A) ROA 1994, states:
Audit. Subject to the terms and conditions of the MOU, the City shall have the right to review or audit all books and records of the Authority...This right includes the right to review and audit all books and records of revenue not included in the calculation of the fee paid, but which may be considered by the City to be subject to a franchise fee.
- Section 13-4-9-8 (A) ROA 1994, states:
Fee and rental. As consideration for this franchise, which provides for the rental and use by the Authority of the rights-of-way, which are valuable public properties acquired and maintained by the City at great expense to its taxpayers and citizens, the Authority shall pay to the City a franchise fee in the amount of 4% of the annual gross revenue within the City limits, as defined in § 13-4-9-3.
- Section 13-4-9-3 ROA 1994, Definitions, in part, states:
WASTEWATER. Residential, multi-family, commercial, industrial, institutional and wholesale- special contracts wastewater, systems and services.

WATER. Residential, multi-family, commercial, industrial and institutional ***water, systems and services.***

GROSS REVENUE. Includes any and all revenue received by the Authority from the sale of water or provision of wastewater to its customers within the limits of the City, as those limits may be extended from time to time including the value of the water and wastewater served and consumed by the Authority in the City. ***GROSS REVENUE shall not include amounts received by the Authority as a tax, fee or assessment of general applicability collected by the Authority for pass-through to another governmental agency, reimbursements from third parties for expenses, bad debts written off, revenue received by the Authority upon which the City already collects a franchise fee from another utility, utility expansion charges or to refunds or credits.***

In addition to the excluded items above, the Authority also excludes accrual adjustments from the calculation of franchise fees. An accrual is essentially a timing difference between when revenues are recorded on the Authority's financial statements and when cash (customer payments) is received. The Authority's accrual adjustments contain balances from all jurisdictions, and amounts specific to the City were not compiled separately. For FYs 2016 and 2017, the Authority's accrual adjustments totaled \$1.79 million and (\$20) thousand, respectively. As the City receives approximately 90 percent of the total franchise fee assessed by the Authority, the application of the four percent franchise fee rate to 90 percent of the two-year \$1.77 million, may result in approximately \$64 thousand of franchise fee revenue timing difference to the City.

City ordinance requires that the Authority keep its records in accordance with generally accepted accounting principles and on a City-specific basis but does not clarify if franchise fees should be paid on an accrual basis. City ordinance Section 13-4-9-9 (B) ROA 1994, in part, states, (emphasis added):

*(A) Record keeping. Subject to the terms and conditions of the MOU, the Authority shall keep **complete and accurate books and records** of its business and operations pursuant to this franchise **in accordance with generally accepted accounting principles in the United States.** The Authority and City agree that the Authority records shall be kept on a **City-specific basis for purposes of calculating franchise fees.***

Additionally, OIA noted that the Authority is not consistently excluding refund or credit adjustments. In FYs 2016 and 2017, refunds and credits of \$116,367 and \$148,155, respectively, were include in the City's franchise fee base and effectively reduced the franchise fee paid to the City by \$10,580. Under the definition of gross revenue in the ordinance, refunds and credits to customer balances are an excludable line item of the franchise fee base calculation.

B. Existence of Jurisdictional Mismatches

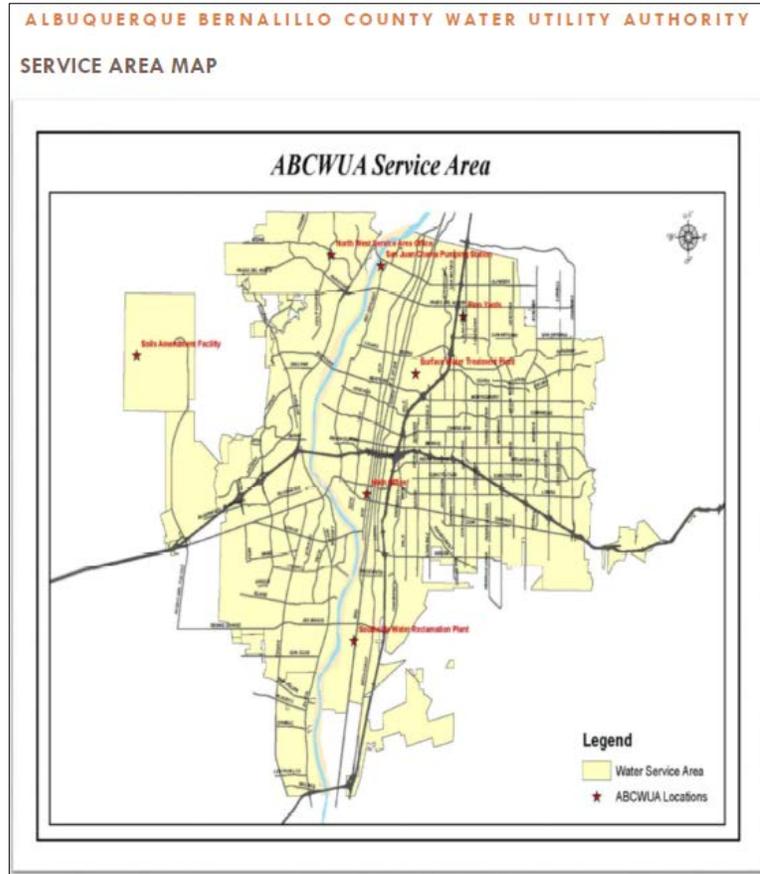
During the audit, the Authority performed a billing jurisdiction analysis by comparing billing jurisdiction data on the CC&B system against Geographic Information System (GIS) boundary data for all jurisdictions and identified 2,414 accounts on the CC&B billing system with jurisdictional mismatches.

The Authority provides water and wastewater to four jurisdictions. Customers are assigned to a jurisdiction on CC&B based on where the address is located within the following geographic boundaries:

- The City of Albuquerque,
- Valley (Bernalillo County),
- Rio Rancho, or
- Los Ranchos.

Over time, geographic boundaries may change if property is annexed from one jurisdiction to another. Annexation requires the Authority to update CC&B in order to populate the revised jurisdiction and to redirect the franchise fee to the new jurisdiction. The following is a map of the Authority's service area:

Map of the Authority's Service Area



Source: The Authority's 2017 Comprehensive Annual Financial Report

A jurisdictional mismatch could involve any combination of the four jurisdictions. For example, if a customer was coded to the City's jurisdiction on the CC&B, but the GIS boundary data shows the address is located in Los Ranchos, a mismatch would have been identified in the Authority's billing jurisdiction analysis.

In an effort to verify and confirm the Authority's customer jurisdiction data, OIA provided customer addresses to the City's Planning Departments' GIS Manager to analyze. The City's GIS Manager validated and agreed to the jurisdiction of the City's customer accounts, with the exception of the 2,414 accounts on the mismatch report, which are pending future review by the Authority.

The Authority has not identified the cause for the jurisdictional mismatches. Until the Authority has fully researched and taken corrective action on the mismatched accounts, OIA is unable to

reasonably estimate the total financial impact to the City. Prior to this audit the City had not monitored the Authority's customer jurisdiction assignments or performed an independent GIS jurisdiction analysis.

RECOMMENDATIONS TO THE AUTHORITY

The Authority should:

- Revise policies, procedures, and internal control processes specific to franchise fees to ensure continued compliance with City ordinance Section 13-4-9-8 (A) ROA 1994.
- Ensure that customer jurisdiction data is periodically validated and that jurisdiction mismatches are corrected timely.
- Work with the City to:
 - Research and conclude on mismatch jurisdiction errors and adjust CC&B as needed;
 - Research and conclude on the proper treatment of refunds and credits and adjust CC&B as needed;
 - Determine how excluded accounts, including accrual adjustments, should be considered in the calculation of the franchise fee assessment and update CC&B as needed; and
 - Determine if there is an over or under payment of the franchise fee to the City.
- Negotiate, as needed, with the City, in accordance with City ordinance Section 13-4-9-8 (D) ROA 1994.

RESPONSE FROM THE AUTHORITY

“The Water Authority agrees with parts of the finding, and disagrees with other parts of the finding.”

See Appendix D for the Authority's complete response.

ESTIMATED COMPLETION DATES

- *“Revise policies, procedures, and internal controls to specifically address franchise fee compliance; 1-year after internal City audit report published, or until such time as the City and the Water Authority have reached an agreement on what constitutes compliance.*
- *Periodic review of jurisdiction coding; quarterly.*

- *Negotiate, as needed, with the City; when both parties agree to meet.”*

AUDITOR’S COMMENT

The Authority acknowledges in their response that they concur with finding number two, but only agree to parts of finding number one relative to compliance with City Ordinance Section 13-4-9 (A) ROA 1994. The Authority disagrees that certain revenues were improperly excluded from gross revenue calculations and believes that the Authority is correctly accounting for refunds and credits as well as the franchise fee related to refunds and credits.

OIA considered the definitions of water and wastewater in conjunction with the definition gross revenue under City Ordinance Section 13-4-9-3 ROA 1994 when evaluating items that were excluded. As stated in Section 13-4-9-3 Definitions, in part, [emphasis added], “For the purpose of §§ 13-4-9-1 et seq., the following terms, phrases, words and their derivations shall have the meaning given in this section.

~~WATER.~~ Residential, multi-family, commercial, industrial and institutional water, systems and services.

~~WASTEWATER.~~ Residential, multi-family, commercial, industrial, institutional and wholesale- special contracts wastewater, systems and services.

~~GROSS REVENUE.~~ Includes any and all revenue received by the Authority from the sale of water or provision of wastewater to its customers within the limits of the City, as those limits may be extended from time to time including the value of the water and wastewater served and consumed by the Authority in the City. GROSS REVENUE shall not include amounts received by the Authority as a tax, fee or assessment of general applicability collected by the Authority for pass-through to another governmental agency, reimbursements from third parties for expenses, bad debts written off, revenue received by the Authority upon which the City already collects a franchise fee from another utility, utility expansion charges or to refunds or credits.”

We have read the Authority’s response in its entirety and do not believe that the Authority has provided additional evidence that would support modifying our finding or that clearly demonstrates why certain revenues should be properly excluded.

Additionally, although the Authority believes they are properly accounting for all

refunds and debits our audit testing did identify certain refunds and credits that the City and Authority should review to determine proper resolution.

Based on the information documented in our audit we believe that our report findings are correctly stated and will remain as written. The City and Authority should work together to negotiate proper resolution of the audit findings.

RECOMMENDATIONS TO THE CITY

The City should:

- Establish and implement policies, procedures and internal control processes to ensure monitoring of City ordinance Section 13-4-9-8 ROA (A) 1994 including:
 - An assessment to determine whether accounts are properly included or excluded from gross revenues;
 - Confirmation that the Authority is periodically providing validation of customer jurisdiction; and
 - Independent verification by the City of the accuracy of the customer's assigned jurisdiction to the City's GIS jurisdiction.
- Work with the Authority to:
 - Determine how excluded accounts, including accrual adjustments, should be considered in the calculation of the franchise fee assessment;
 - Determine how refunds and credits can be consistently excluded from the calculation of the franchise fee assessment;
 - Correct jurisdictional mismatches; and
 - Determine if there is an over or under payment of the franchise fee to the City.
- Negotiate, as needed, with the Authority, in accordance with City ordinance Section 13-4-9-8 (D) ROA 1994.

RESPONSE FROM THE CITY

“The City concurs with the recommendations and will:

- *Prepare and implement policies, procedures and internal control processes for collecting, monitoring and reconciling franchise fee revenue to include: (i) Assessment on accounts excluded and included from gross revenues, (ii) Confirmation from franchise fee vendor that it is providing validation of customer jurisdiction and (iii) Independent verification by the City of accuracy of the customer's assigned jurisdiction to the City's GIS jurisdiction.*

- *Work with the Authority to negotiate a new Memorandum of Understanding (MOU) to determine: (i) how excluded accounts, including accrual adjustments should be considered in the calculation of the franchise fee assessment, (ii) how refunds and credits can be consistently excluded from the calculation of the franchise fee assessment, (iii) how to correct jurisdictional mismatches and (iv) if there is an over and under payment of the franchise fee to the City.”*

ESTIMATED COMPLETION DATES

“Proposed policies, procedures and internal control processes for collecting, monitoring and reconciling have already been initiated and will be ready at the end June with an effective date of July 1, 2019 to comport with the start of the new fiscal year.

“The City's administration will begin negotiation with the Water Authority on a new MOU in Fiscal Year 2020. In the MOU the City will address with the Water Authority the City's legal opinion of which accounts to be included and/or excluded in the calculation of the franchise fee assessment.”

2. REVISE POLICIES, PROCEDURES, AND INTERNAL CONTROL PROCESSES TO ENSURE COMPLIANCE WITH THE ANNUAL RECONCILIATION REQUIREMENT OF CITY ORDINANCE SECTION 13-4-9-8 (C) ROA 1994.

Neither the City nor the Authority have policies, procedures, or internal control processes in place specific to annual reconciliation of franchise fees that would ensure compliance with City ordinance Section 13-4-9-8 (C) ROA 1994, which states (emphasis added):

Reconciliation. *Subject to the terms and conditions of the MOU, and commencing on or before the first day of the thirteenth month following the effective date of this franchise, and annually thereafter, the Authority shall submit to the Treasurer a statement of the franchise fee actually due to the City based upon the actual gross revenue for the year, together with a check for any amount due from the Authority or a statement for any amount due from the City. In the event any sums are owed by the City or Authority, such amount shall include interest from the last day of the franchise year computed at the rate being paid for customer security deposits being held by the Authority. Within 30 days from the submission of the statement of franchise fee owing, or within such reasonable additional time as he or she may request, the Treasurer shall investigate the statement and determine the accuracy of the amounts reported. However, neither payment of the franchise fee nor*

failure to make such investigation shall stop the City in any way or prevent subsequent investigation or payment of any amount properly due.

As a result, the Authority did not prepare or submit, and the City did not request, or the Treasurer investigate, the accuracy of an annual reconciliation of franchise fee actually due to the City based upon the actual gross revenue for FYs 2016 and 2017.

COSO Principle 12 supports organizations deploying control activities through policies that establish what is expected and procedures that put policies into action.

Based on inquiry with the Authority and the City about the annual reconciliation process, it was noted that this process has never been performed by the Authority. Neither the City nor the Authority could produce evidence that the annual reconciliation was ever performed. In a prior audit of the City's monitoring of franchise fee payments issued to the City by OIA in 2008 (report No. 07-105) it was noted that the Authority had not submitted the annual reconciliation in 2004, 2005, or 2006. The reconciliation requirement may have been overlooked because, up until FY2012, the Authority was a component unit of the City and, until FY2013, under the MOU, certain financial records of the Authority were housed on the City's financial system.

Without formal policies, procedures, and internal control processes for preparing or monitoring an annual reconciliation of franchise fees, non-compliance with the franchise fee ordinance existed and remained unnoticed by both the Authority and the City.

Lack of a reconciliation process poses a greater risk of franchise fees being applied incorrectly to customer billings or errors occurring that result in over or under payments to the City. Additionally, without a documented reconciliation, the Authority and the City are unable to review the components of gross revenues and the underlying calculation of franchise fees for accuracy and reasonableness.

RECOMMENDATION TO THE AUTHORITY

The Authority should revise policies, procedures, and internal control processes to ensure compliance with the franchise fee reconciliation requirement in City ordinance Section 13-4-9-8 (C) ROA 1994 is accomplished and includes processes for:

- Completing and submitting the reconciliation of franchise fee actually due to the City based upon the actual gross revenue to the City Treasurer annually;
- Periodically confirming the accuracy of customers assigned jurisdiction to the City's GIS jurisdiction; and
- Periodically reviewing revenue accounts for proper inclusion or exclusion.

RESPONSE FROM THE AUTHORITY

“The Water Authority concurs with the City that an annual reconciliation be prepared, and periodic reviews of jurisdiction be performed in accordance with Section 13-4-9-8 (C) ROA 1994. The Water Authority Finance Division will revise its policies, procedures, and internal processes to ensure a reconciliation is completed no later than six months after each fiscal year end. Also, during each year, a periodic internal control review will be performed and documented to ensure the proper jurisdiction is accurately coded.”

ESTIMATED COMPLETION DATE

- ***“Annual Reconciliation of franchise fees; six months after each fiscal year end.***
- ***Document periodic review of jurisdiction; quarterly.”***

RECOMMENDATION TO THE CITY

The City should establish and implement policies, procedures, and internal control processes to ensure continued monitoring of City ordinance Section 13-4-9-8 (C) ROA 1994 to ensure:

- The Authority is timely submitting an annual reconciliation of the franchise fee due to the City based upon the actual gross revenue for the year;
- Periodically confirming the accuracy of the customers’ assigned jurisdiction to the City’s GIS jurisdiction; and
- Timely review of the annual reconciliation for accuracy and assess if revenue accounts are properly included or excluded from gross revenues.

RESPONSE FROM THE CITY

“The City concurs with the recommendations and will prepare and implement policies, procedures and internal control processes for collecting, monitoring and reconciling franchise fee revenue to include: (i) Assessment on accounts excluded and included from gross revenues, (ii) Confirmation from franchise fee vendor that it is providing validation of customer jurisdiction and (iii) Independent verification by the City of accuracy of the customer's assigned jurisdiction to the City's GIS jurisdiction.”

ESTIMATED COMPLETION DATE

“Proposed policies, procedures and internal control processes for collecting, monitoring and reconciling have already been initiated and will be ready at the end June with an effective date of July 1, 2019 to comport with the start of the new fiscal year.”

CONCLUSION

Compliance with City ordinance Section 13-4-9 ROA 1994 is a key requirement of the Authority. Opportunities exist for the Authority and the City to improve overall compliance with, and monitoring of, the ordinance requirements, as various issues were noted. The areas addressed throughout this report will help the Authority and the City improve in these areas and recommend that:

- The Authority:
 - Revise policies, procedures, and internal control processes to ensure continued compliance with City ordinance Section 13-4-9-8 parts (A) and (C), ROA 1994;
 - Ensure that customer jurisdiction data is periodically validated and that jurisdiction mismatches are corrected timely;
 - Work with the City to research and conclude on the mismatch jurisdiction errors, proper treatment of refunds and credits, determine what accounts should be excluded from the franchise fee calculation, and if there is an over or under payment of the franchise fee; and
 - Negotiate as needed, in accordance with City ordinance Section 13-4-9-8 (D) ROA 1994.

- The City:
 - Establish and implement policies, procedures, and internal control processes to ensure monitoring of City ordinance Section 13-4-9-8 parts (A) and (C), ROA 1994;
 - Work with the Authority to correct jurisdiction mismatches, to determine how excluded accounts, including accrual adjustments, should be considered in the franchise fee calculation, the proper treatment of refunds and credits, and if there is an over or under payment of the franchise fee; and
 - Negotiate as needed, in accordance with City ordinance Section 13-4-9-8 (D) ROA 1994.

The scope of the audit was limited relative to the 2,414 customer accounts identified by the Authority with jurisdiction mismatches. The Authority is currently performing additional research on each customer account to confirm the appropriate jurisdiction assignment and OIA cannot conclude at this point in time the amount of potential over or under payments of franchise fee.

We greatly appreciate the participation, cooperation, and responsiveness of both the Authority's and the City's management and staff. Their time, assistance, and involvement are a reflection of their professionalism and dedication to the City of Albuquerque.

PREPARED:

Jennifer N. Baca, Principal Auditor
Office of Internal Audit

REVIEWED:

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Office of Internal Audit

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Office of Internal Audit

APPROVED:

Jim Thompson, City Auditor
Office of Internal Audit

APPROVED FOR PUBLICATION:

Ed E. Perea, Chairperson, Accountability in
Government Oversight Committee

APPENDIX A

OBJECTIVES

The audit objectives were to determine:

1. Is the Authority complying with the four percent gross revenue franchise fee payment in accordance with City ordinance Section 13-4-9-8 (A) ROA 1994?
2. Is the Authority complying with terms of timely payment described in the City ordinance Section 13-4-9-8 (B) ROA 1994?
3. Is the Authority complying with the annual reconciliation requirement described in City ordinance Section 13-4-9-8 (C) ROA 1994?

SCOPE AND LIMITATIONS

Our audit did not include an examination of all functions and activities related to the Authority and compliance with the franchise fee ordinance. Our scope was limited to the objectives above.

This report and its conclusions are based on information taken from a sample of transactions and do not represent an examination of all related transactions and activities.

The Authority's management is responsible for establishing and maintaining effective internal control and complying with laws, regulations, contracts, and agreements.

In performance audits, a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct (1) impairments of effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) non-compliance with provisions of laws, regulations, contracts, or grant agreements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective is not met. In the performance audit requirements, the term significant is comparable to the term material as used in the context of financial statement engagements. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

Our consideration of internal control was for the limited purpose described in our audit objectives and was not designed to identify all deficiencies in internal control. Therefore, unidentified deficiencies may exist.

Accordingly, we do not express an opinion on the effectiveness of the Authority's or the City's internal control environment.

As part of the performance audit, we tested the Authority's compliance with certain provisions of laws, regulations, contracts, and agreements and non-compliance with which could directly and significantly affect the objectives of the audit. However, opining on compliance with those provisions was not an objective of the performance audit and accordingly, we do not express an opinion.

The scope of the audit was limited relative to the 2,414 customer accounts identified by the Authority with jurisdiction mismatches. The Authority is currently performing additional research on each customer account to confirm the appropriate jurisdiction assignment and cannot conclude at this point in time the amount of potential over or under payments of franchise fee. Consequently, the total financial impact to the City is not yet known or cannot be reasonably estimated. The Authority should complete its review and analysis of these customer accounts and attempt to negotiate with the City a settlement for any gross over or under payments that may have resulted from the jurisdiction mismatch.

We conducted this performance audit in accordance with generally accepted government auditing standards for performance audits, as prescribed in *Government Auditing Standards*, revision 2011, issued by the Controller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

METHODOLOGY

Methodologies used to accomplish the audit objectives include but are not limited to the following:

- Reviewed ordinance to determine compliance with franchise fee calculations, payments and reporting;
- Requested copies of the Authority's policies and procedures;
- Interviewed key employees from the Authority;
- Flowchart/illustrated the recording, payment and reporting processes of franchise fees;
- Obtained copies of the annual reconciliation of franchise fees paid to gross revenues for FYs 2016 and 2017;
 - Agreed total reconciled gross revenue balances to the Authority's annual audited financial statements,
 - Identified revenue accounts that are included or excluded from the gross revenue base amount that is assessed the four percent franchise fee rate,
 - Provided City management with a summary of excluded revenues, and

- Determine the City's and the Authority's understanding of excludable revenues in accordance with City ordinance Section 13-4-9-3 ROA 1994.
- Identified the total population of franchise fees on water bills (address contains both water and wastewater in same water bill) paid/recorded to revenue during the audit period;
- Generated a statistical, random sample using "The Number" sampling software to provide a 90 percent confidence level;
- Developed samples (judgmental and statistical) from data supporting the objectives and assess the evidence against underlying criteria to the objective. Evidence includes documentary [e.g. the Authority's Comprehensive Annual Financial Report, reconciliations, the Authority's water bills, etc.], and testimonial (e.g. interviews, inquiries, etc.) that supports compliance or non-compliance with the underlying criteria to each objective;
- Tested a sample of water bills for compliance with the ordinance, rules and regulations, and policies and procedures;
- Obtained information from the City's Planning department to validate the City's GIS data with the Authority's GIS data;
- Reviewed franchise fee monthly payments to determine if payments are made timely;
- Considered the City's internal controls relative to the Authority's findings identified during the audit;
- Evaluated the results of testing to determine and document if sufficient, appropriate evidence has been obtained to address audit objectives and reduce audit risk to an acceptable level and that evidence is sufficient and appropriate to support findings and conclusion;
- Summarized all findings and provide auditee with recommendations that will help to strengthen internal control, cost savings, and operating efficiency and effectiveness; and
- Applied other methodologies as needed.

APPENDIX B

**Gross Revenue Reconciliation
 FYs 2016 & 2017**

	FY 2016	FY 2017	Total
Gross Revenue	\$210,056,776	\$215,193,982	\$425,250,758
Less Revenue Assigned to the City's Jurisdiction			
City: Questionable Exclusions*	1,557,172	1,953,212	3,510,384
City: Properly Excluded (per ordinance)	1,621,815	1,139,266	2,761,081
Properly Excluded (Other Jurisdictions)	19,423,459	19,999,143	39,422,602
Properly Excluded (Department of Municipal Development and Solid Waste Fees)	1,339,000	1,750,000	3,089,000
Total Excluded	\$23,941,446	\$24,841,621	\$48,783,067
Less Revenue with no Jurisdiction Assigned			
Accrual Adjustments (Questionable Exclusion*)	1,785,716	(19,982)	1,765,734
Other Miscellaneous (Questionable Exclusion*)	640,586	587,075	1,227,661
Others Properly Excluded	29,391	9,125	38,516
Total No Jurisdiction	\$2,455,693	\$576,218	\$3,031,911
Gross Revenue, Subject to City Franchise Fee	\$183,659,637	\$189,776,143	\$373,435,780

Source: OIA prepared from the Authority's FY2016 & 2017 reconciliations

*Questionable Exclusions – It is not clear in the Ordinance that these accounts can be excluded. The City's understanding is that the revenues are includable and the Authority's understanding is that the revenues are excludable from the franchise fee assessment.

APPENDIX C

**Descriptions of Excluded Billing Line Items
Provided by the Authority**

Penalties City Sys Rec

The following sections of the Albuquerque Bernalillo County Water Utility Authority Water and Sewer Rate Ordinance (Rate Ordinance) govern penalties (Under New Mexico state law (NMSA 1978, Section 72-1-10), the Water Authority has the power to “set policy and regulate, supervise and administer the water and wastewater utility of Albuquerque and Bernalillo County, including the determination and imposition of rates for services.”):

1-1-12 Penalty for Delinquent Accounts: A penalty of 1.5 percent per month may be imposed on all delinquent accounts.

1-1-13 Penalty for Non-compliance with the Sewer Use and Wastewater Control Ordinance:

A. Any permitted Industrial User who has violated, or continues to violate, and Pretreatment Standard or Requirement as defined in the Sewer Use and Wastewater Control Ordinance shall be assessed a penalty of up to \$1,000 per violation per day.

B. Any other violations of the Sewer Use and Wastewater Control Ordinance may be subject to a penalty up to \$1,000 per violation per day.

Cross Connection Misc. Fee

Section 1-1-9 (E) of the Rate Ordinance details the following cross connection fees:

1) Containment Inspection Fees. An inspection fee of \$50 shall be assessed to all customers required to have premise inspections to cover expenses incurred by the Water Authority during the initial inspection of the premise. The inspection fee shall be assessed only to those customers whose premise are is in compliance with this Ordinance at the time of inspection.

2) Backflow Prevention Assembly Administrative Charge. All customers required to provide cross-connection control by containment and/or isolation shall be assessed an annual administrative fee of \$30 (fee is not to be prorated in case of change in ownership) for each backflow prevention assembly located at the premise. This fee incorporates expenses incurred by the Water Authority to maintain records, to process required testing notices and

to enter data as required.

3) Late report fee. A late report fee of \$100 per month may be assessed for passing test reports submitted more than 30 days past the due date. The late report fee will be assessed monthly until a passing test report is submitted.

4) Non-existent containment backflow preventer assembly fee. A nonexistent containment backflow preventer assembly fee of \$200 per month may be assessed for each service line without a backflow preventer or with an unapproved backflow preventer.

5) Unauthorized connection fee. An unauthorized connection fee of \$200 per month may be assessed for each service line with an unauthorized tee, branch, connection fitting, or opening between the containment backflow prevention assembly and the service connection.

Wasted Water Fines

Section 4-1-99, Penalty, of the Albuquerque Bernalillo County Water Utility Authority Water Ordinance (Waste Ordinance) governs water waste violation fees. The fee schedule ranges from \$20 to \$2,000 for each violation. Violations are defined in the ordinance.

Fees Taxable

This account is used to account for all miscellaneous fees charged by the Authority, such as straight pipes, meter reduction and increase fees, unauthorized connection and tampering fees, plug and pour set fees, and meter damage assessments.

Fees Nontax

This account has the same types of revenue as the Fees Taxable account above, but the items have been taxable items include returned payment fees, lien recording fees, meter resets, research fees, and nonpayment and delinquency fees.

City Unmeasured Sewer Gen

This account is used for fees charged for waste water charges for septic haulers. The septic haulers are not subject to franchise fees because they are not connected to a sewer line. In addition, the account is used for waste water charges on flat waste water accounts. Flat waste water accounts are charged franchise fees because the customer is connected to a sewer collection line.

Compost Sales

Water Authority compost (“Compost Del Rio Grande”) is rich in organic matter, nitrogen and trace minerals and may be used in the production of crops for human consumption. It is available to the general public for purchase.

Certified biosolids compost, typically comprising 50% animal stable bedding, 30% biosolids

(sewage sludge) and 20% green waste (pulverized yard trimmings), by volume, is available for purchase at \$25.00/ton (~\$10/yd³ at 2.5 yd³/ton) for screened material. Any vendor who purchases one hundred (100) tons or more of compost in any month will receive a five percent (5%) discount off the compost purchase price for that month. Any vendor who purchases one hundred (100) tons or more of screening overs in any month will receive a five percent (5%) discount off the screening overs purchase price for that month. For purposes of the discount, purchase totals shall not carry over from month to month.

Vendors must weigh each load of materials using the truck scale provided at the compost facility. Vendors are solely responsible for transporting purchased materials from the compost facility (approximately 15 miles west of Albuquerque) to their point of storage or use. Vendors will be invoiced monthly at the address above for materials, and payment is required within thirty (30) days after receipt of an invoice. Failure to pay invoices will result in termination of purchase authorization.

Compost Sales Nontax

Same as Compost Sales above, but sales are made to entities presenting a non-taxable transaction certificate.

APPENDIX D

RESPONSE FROM THE AUTHORITY – finding on page 10

The Water Authority agrees with parts of the finding, and disagrees with other parts of the finding. See below.

Water Authority is willing to revise its policies, procedures and internal controls to a more uniform document, specifically for franchise fee compliance, contingent upon the City and the Water Authority reaching an agreement as to what constitutes compliance.

The Water Authority currently performs a jurisdictional check on all new accounts added to the billing system. However, the Water Authority has not reviewed jurisdictional data to see if errors occurred in the past. The Water Authority agrees to run a yearly mismatch report to determine if any mistakes have been made.

The Water Authority agrees to work with the City to conclude on any mismatch jurisdiction errors and adjust CC&B as needed.

The Water Authority believes that it is correctly accounting for refunds and credits as well as the franchise fee related to refunds and credits. However, the Water Authority will work with the City in event that there are errors that need adjustment.

The Water Authority disagrees with the City that certain revenues were improperly excluded from the gross revenue calculations. The current practice of calculating the franchise fee, and which sources of revenue are to be included in the calculation, arose when the City managed and prepared the Water Authority's finances. Past practice and the parties' course of dealing and conduct are highly probative in the interpretation of contract terms, and the Water Authority cannot be held accountable for merely continuing a process that the City initiated.

Before the franchise ordinance was passed in 2006, the City and the Water Authority operated pursuant to an MOU entered into on January 21, 2004, which defined "Gross Revenue" as "All income and revenues directly or indirectly derived by the City from the operation and use of the System, or any part of the System, and includes, without limitation, all revenues received by the City from the System and from the sale and use of water, water services or facilities, sewer service or facilities or any other service, commodity or facility or any combination thereof furnished to the inhabitants of the City and County by means of the System."

This definition is much broader in scope than the definition contained in City Ordinance Section 13-4-9-3. However, the franchise ordinance's definition of "Gross Revenue"—which was the product of extensive

negotiation between the City and the Water Authority—deleted the word “indirectly” and is considerably narrower in scope than the 2004 MOU. It is a general rule of statutory construction that when a statute has been amended, the amended language must be read within the context of the previously existing statute.

Applying that rule here, it is evident that the parties intended to exclude indirect sources of income and revenue from the franchise fee calculation, such as fines, late fees, etc.

Furthermore, Nann Winter, an attorney with the law firm of Stelzner, Winter, Flores & Warburton, who negotiated the terms of the franchise ordinance on behalf of the Water Authority, confirms that the intent of the parties was to cap the franchise fee to only actual water and wastewater service, and not to include indirect or miscellaneous items in the definition of gross revenue.

The following is an affidavit regarding those negotiations:

AFFIDAVIT OF NANN M. WINTER

I, Nann M. Winter, having first been duly sworn upon oath, depose and state as follows:

1. I am an adult over the age of eighteen (18) years, and the matters in this Affidavit are made on my own personal knowledge.

2. I was a Deputy City Attorney for the City of Albuquerque until December 31, 2003. I served as the director of the unit of the office of the City Attorney that addressed all matters related to, among other things, franchising, City rights-of-way, City utility operations and public utilities serving the City.

3. In June 2003 and continuing until December 31, 2003, I also served as the first administrative officer of the newly created Albuquerque Bernalillo County Water Utility Authority (Water Authority).

4. Beginning on or around January 2004 Mark Sanchez assumed the entirety of the Water Authorities' administrative responsibilities.

5. Thereafter, and continuing to present day, my law firm (now known as Stelzner, Winter, Warburton, Flores, Sanchez and Dawes, PA) served as outside counsel for the Water Authority.

6. In approximately early 2006, at the direction of the Water Authority, I began negotiations with various City representatives regarding the franchise and right-of-way agreement between the City and the Water Authority.

7. City representatives at the negotiating table included assistant City Attorneys Carolyn Fudge and Greg Smith.

8. While there were many negotiated points, I have a very good recollection of two issues in particular, i.e. the definition of “gross revenue” and the provisions in the franchise related to the relocation by the Water Authority of utility system assets necessitated by City public works projects.

9. As it concerns the definition of “gross revenue”, it is my recollection that we (the City representatives and me) actively negotiated a revised definition of the term “gross revenue” and expressly added the definitions “Water” and “Wastewater” to the document.

10. At one point in the negotiation, “gross revenue” was defined as follows:

Includes any and all revenue received by the Water Authority for the use of or access to the Authority's facilities located on the City's rights-of-way plus all revenue derived by the Authority from the sale of water or wastewater service to its customers within the limits of the City, as those limits may be extended from time to time including the value of water and wastewater served and consumed by the Authority in the City. Gross Revenue shall not include amounts received by the Authority as a tax, fee or assessment of general applicability collected by the Authority for pass-through to another governmental agency, reimbursements from third parties for expenses, bad debt, revenue received by the Authority upon which the City already collects a franchise fee from another utility, utility expansion charges or to refunds or credits. The Gross Revenue shall be measured and monitored periodically as set out below. Emphasis supplied.

11. However, during the negotiation process, the language “for the use of or access to the Authority’s facilities located in the City’s Rights of way plus all revenue derived by the Authority” was expressly stricken from the definition of “gross revenue”.

12. In this way, and with this strikeout, it was my intent that the miscellaneous undelineated revenue produced by “the use of or access to the Authority’s facilities” would not be captured in the franchise fee calculation.

13. The definition in the franchise of “Water” was directly guided by the Water Authority’s Rate Ordinance, in particular Section 1-1-3. “Water” was defined to include the first five (5) customer classifications noted in Section 1-1-3.

14. In this way, it was my intent that the revenue produced by these five (5) customer classifications would be captured for the City's benefit.

15. The definition in the franchise of "Wastewater" was directly guided by the Water Authority's Rate Ordinance, in particular Section 1-1-5. "Wastewater" was defined to include the first six (6) customer classifications noted in Section 1-1-5.

16. In this way, it was my intent that the revenue produced by these six (6) customer classifications would be captured for the City's benefit.

17. I was also keenly aware of other revenue sources identified in the Water Authority's Rate Ordinance, including non-potable water, water waste fees and various other fees and charges authorized in the balance of the Rate Ordinance.

18. My recollection, and the intent of my negotiated effort, was to ensure that only the commodity revenues associated with "Water" and "Wastewater" resulting from the eleven identified customer classifications would accrue to the benefit of the City.

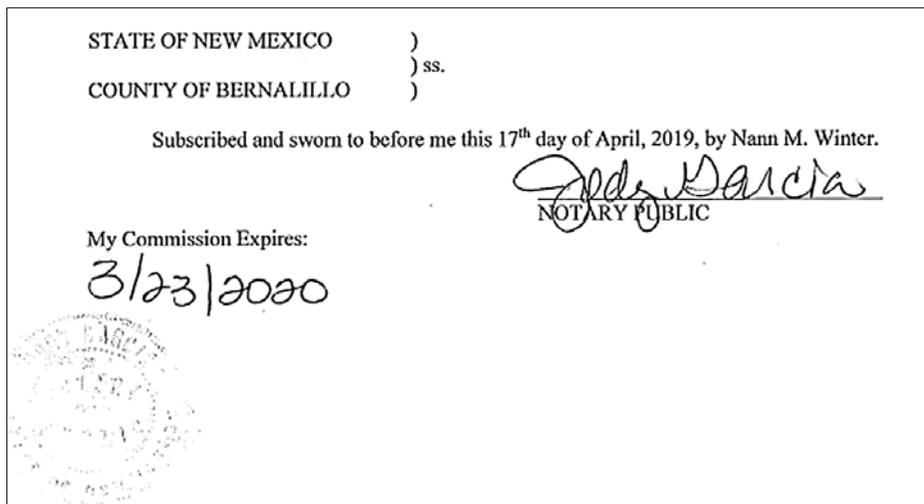
19. I am not aware of any effort by the City representatives, or the City Council, to revise the language agreed to by the negotiators as it concerns the definition of "gross revenue", "Water" and "Wastewater."

20. A review of my files from 2006 including drafts of the franchise and e-mail correspondence confirms my recollection. I have provided some of these notes and drafts to both City and Water Authority representatives in the past week.

FURTHER AFFIANT SAYETH NAUGHT.



NANN M. WINTER



It is the Water Authority's believe that it has collected and remitted to the City the proper amount of Franchise fee based on the original negotiations with the City.

Lastly, the Water Authority will negotiate, as needed, with the City, in accordance with City ordinance Section 13-4-9-8 (D) ROA 1994.

ESTIMATED COMPLETION DATES

- Revise policies, procedures, and internal controls to specifically address franchise fee compliance; 1-year after internal City audit report published, or until such time as the City and the Water Authority have reached an agreement on what constitutes compliance.
- Periodic review of jurisdiction coding; quarterly.
- Negotiate, as needed, with the City; when both parties agree to meet.

RESPONSE FROM THE AUTHORITY – finding on page 12

The Water Authority concurs with the City that an annual reconciliation be prepared, and periodic reviews of jurisdiction be performed in accordance with Section 13-4-9-8 (C) ROA 1994. The Water Authority Finance Division will revise its policies, procedures, and internal processes to ensure a reconciliation is completed no later than six months after each fiscal year end. Also, during each year, a periodic internal control review will be performed and documented to ensure the proper jurisdiction is accurately coded.

ESTIMATED COMPLETION DATES

- Annual Reconciliation of franchise fees; six months after each fiscal year end.
- Document periodic review of jurisdiction; quarterly.